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NEWSPAPER

NON-COMMERCIAL

MSU institutes campus deliveries

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FOOD

Crusts seal in food natural juices, fla

Florence Fabricant/Page

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Nation's

Restaurant News®

The Weekly Newspaper of the Food-Service Industry

Vol. 23, No. 18 | Published every Monday by Lebhar-Friedman Inc.; $3 a copy, $29.50 a year | May 1, 1989

NRN photo

A Tia's Mexican restaurant in Mesquite, Texas. Inset: Larry Lavine, founder.

Lavine rekindles Chili's magic with a Mexican touch at Tia's

By Tracey Taylor Woodard

DALLAS — Hoping to bring that Chili's magic to the realm of Mexican dinner houses, Larry Lavine plans to expand his six-unit Tia's restaurant chain outside the Dallas Metroplex area by the end of this year.

Lavine, founder of the Chili's legend, left that company in 1984 to pursue his own real-estate and business interests. Just a few years later he decided to go back into the restaurant business and began looking for "something expanding."

Tia's, a full-service dinner-house concept similar to Chili's with a Mexican twist, proved to be the answer to Lavine's quest.

"Tia's had three units and was owned by three partners who didn't want to run a big company," Lavine said. "They didn't have the expertise to expand. They were happy to be owners."

Lavine joined the company as president in October 1987. Today, he said, his systems are in place, and the company is ready to expand.

"We have training, accounting, site selection, opening, and construction teams in

(See TIA'S, page 57)

Operators riled by new tax rule on special perks

By Alan Liddle

PORTLAND, Ore. — Restaurateurs are angry and confused about new tax regulations requiring employers to report fringe benefits reserved for top managers.

The controversy over Section 89, an Internal Revenue Service rule due to take full effect July 1, emerged as a major issue at the Pacific Northwest Regional Restaurant Convention & Exposition here. About 24,000 people flocked to the three-day meeting that was sponsored by the Oregon Restaurant Association and was held at the Memorial Coliseum.

Operators complained that the measure undermines the value of previously tax-shel-

(See SECTION 89, page 57)

Section 89 spawned by '86 tax reforms

* * *

Congress feels heat to reconsider

See page 57

Holdraker resigns from Ponderosa

By Bill Carlino

DAYTON, Ohio — In the latest in a series of shake-ups in the budget steakhouse segment, Frank Holdraker, chief executive of the Ponderosa steakhouse chain, has resigned after two and one-half years at the helm of the 720-unit operation.

Holdraker

A successor was not immediately named. David Pertl, Ponderosa's chief financial officer, temporarily assumed Holdraker's duties.

Holdraker's departure is only the most recent development in a year

(See HOLDRAKER, page 4)

Ramada deals away hotels for casinos

Prime Motor joins Hong Kong firm in venture

By Rajan Chaudhry

PHOENIX, Ariz. — In a high-stakes gamble that pins Ramada Inc.'s fortunes wholly on the future of its gaming operations, the once-diversified hospitality company is dealing its 825 hotels to a Hong Kong real-estate firm and Prime Motor Inns Inc. for $540 million.

Under an agreement with principal investor New World Development Co. Ltd., Prime will assume operational control of Ramada's 600-hotel U.S. franchise system.

Fairfield, N.J.-based Prime, which said its investment totals $180 million, already operates 450 Howard Johnson hotels as well as 130 other hotels under various banners.

Under the terms of sale, New World will retain the Ramada name for its hotels, and the gaming company will take a new, as yet undisclosed, name. The gaming company will maintain its headquarters here.

New World's largest development is the Hong Kong Convention and Exhibition Center, which includes the New World and Regent hotels.

Over the past few years, Ramada has fought off numerous suitors, most recently an investment group led by the

(See RAMADA, page 4)

FOOD WATCH

Do you know the way to spam, Jose?

SAN JOSE, Calif. — The owners of the Bento Xpress Japanese restaurant here have found a unique way to attract customers and the media: Spam sushi.

Co-owner Don Sakai said he added teriyaki-laced Spam wrapped in rice and seaweed to the menu in March after he heard from a friend that the combination was popular in Hawaii. The tip proved correct, he said, and the 16-seat restaurant was soon selling about 30 four-piece orders daily at $3 an order.

Perhaps as valuable as the extra $90 a day in sales, however, was the effect the canned-meat delicacy had on the media. One newspaper published an article and color photo on the front page, and a television station featured the one-of-a-kind finger food on two newscasts.

— Alan Liddle

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Nation's Restaurant News (ISSN 0028-0518) is published weekly, every Monday except the last Monday in December, by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Second-class postage paid at New York, N.Y., and additional mailing offices. POSTMASTER: Send change of address to: Subscription Department, Nation's Restaurant News, 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079.

For change of address, please write Subscription Department, Nation's Restaurant News, 305 Madison Ave., Suite 535, New York, N.Y. 10165-0079. Six weeks' notice is requested. Please send old and new address and zip codes. If possible, include mailing label.

Vol. 23, No. 18 May 1, 1989

NEWS DIGEST

Burger King fires NW Ayer, narrows agency search to 3

MIAMI — After yanking its $150 million national advertising account away from NW Ayer, Burger King Corp. has narrowed its search for a replacement agency to three shops.

D'Arcy Masius Benton & Bowles, New York, Saatchi & Saatchi Advertising, New York, and J. Walter Thompson, Chicago, are still in contention, Burger King said.

The finalists have received a strategic brief from Burger King and will present their proposals within the next few weeks, a Burger King spokesman said. Gary Langstaff, Burger King's new marketing chief, will manage the final stage of review, the spokesman said.

Popeyes operator files suit concerning Church's deal

DETROIT — A nine-unit Popeyes franchisee here has sued the chain's franchisor for alleged damages stemming from the defendant's recent $392 million purchase of Church's Fried Chicken.

The plaintiff, Franchise Management Unltd., said the acquisition puts the licensee in competition with its franchisor, A. Copeland Enterprises, which assumed management of 30 local Church's units following the Church's deal.

In addition, the suit, which seeks more than $50,000 in damages, charges Copeland with slashing Popeyes' advertising budget in the wake of the Church's acquisition.

Popeyes indicated that it would seek to have the suit dismissed for lack of merit.

SAS buys $500M stake in Inter-Continental

COPENHAGEN, Denmark — Scandinavian Airlines System here has paid Japan-based Saison Group an estimated $500 million for a 40-percent stake in Inter-Continental Hotels, the worldwide luxury lodging chain.

Saison, which bought Inter-Continental from Grand Metropolitan last year for $2.15 billion, said SAS will also participate in the chain's operation.

Inter-Continental has hotels in New York, Chicago, and San Francisco.

Skipper's set to accept cards, checks in Oregon

BELLEVUE, Wash. — The Skipper's fast-food fish chain plans to begin accepting credit cards and personal checks at its 35 Oregon units.

The decision follows a six-month, single-unit test in which charged meals accounted for 6 percent of volume and sales by check ranged from 10 percent to 12 percent.

In the Denver test per-transaction tickets, which normally average $5.60, jumped to a mean of $11 when paid by credit card and to $12 when paid by check.

Namiot succeeds Silva at helm of Brigham's

ARLINGTON, Mass. — Brigham's, the ice-cream dipping-store chain here, has tapped former consultant Milton Namiot to succeed Richard Silva as president.

Silva, who took the job in the fall of 1987, resigned for personal reasons, according to the 75-year-old company. His mission was to hasten expansion, according to Brigham's statements issued at the time of Silva's appointment.

Namiot formerly advised Brigham's as a consultant. Previously, he served as a senior vice president of Gulf + Western.

Melman's group plans Southern-style restaurant

CHICAGO — Lettuce Entertain You Enterprises, Richard Melman's restaurant empire here, will open an 850-seat Southern-themed restaurant here late in the fall, according to an informed source.

The seating capacity will encompass banquet rooms and a 250-seat bar, the source said.

Dunkin' Donuts cuts staff, shifts strategy after takeover threat

By Peter Romeo

RANDOLPH, Mass. — Hours after a Canadian investor revealed that he may mount a takeover of Dunkin' Donuts, the pastry maker dropped a bombshell of its own by disclosing that it had fired 14 percent of its staff and was overhauling its sales strategy.

The takeover threat came from George Mann, a Toronto-based businessman who controls such holding companies as Unicorp Canadian Corp. and Kingsbridge Capital Group.

Dunkin' also said that it would sell 17 percent of its common shares to an employee stock-ownership plan, and that it was adopting a new "poison-pill" to thwart takeovers. Those tidbits led some investors and newspapers to marvel at the speed with which Dunkin' had acted to protect its independence.

"It was purely a coincidence that the two things happened on the same day," said Dunkin' chairman Robert Rosenberg. "Clearly you don't draft an ESOP plan and put together severance packages for 80 people in a few hours. We had been planning a realignment for some time."

Under that strategic shift, he said, Dunkin' is seeking incremental sales through the addition of doughnut outlets rather than menu items. In particular, the company wants to outfit more convenience stores with "satellite" kiosks that sell doughnuts baked at nearby conventional Dunkin' outlets.

The realignment also entails merging field operational staffs with development teams to form one crew with dual responsibilities. That move, coupled with the slowdown in menu development, afforded an opportunity to eliminate 80 jobs, Rosenberg said.

In a government filing, Mann's Kingsbridge group said it might use its newly amassed 6.6-percent stake in Dunkin' Donuts to "seek improvements" in the doughnut maker's profitability. Kingsbridge also stated that it might attempt a takeover of Dunkin' through a tender offer or merger.

Dunkin' "had no idea" that Mann's group was amassing shares and has no plans to meet with Kingsbridge representatives, Rosenberg said.

Arby's signs Japan's Kyotaru to Calif. pact

ATLANTA — Arby's has launched an ambitious California expansion drive by signing Kyotaru Co. Ltd., one of Japan's largest restaurant companies, to a 20-unit development pact for Orange County.

The 2,100-unit Arby's system currently has only 13 units in Orange County, south of Los Angeles, and a total of about 105 roast-beef sandwich outlets statewide. Leonard Roberts, the Atlanta-based chain's president and chief executive, said it intends to open 400 restaurants in California during the next five years.

Hiroshi Tanaka, Kyotaru Co.'s president, said his company plans to become the highest-grossing and largest operator in the Arby's system. Roberts called the Tokyo company's three-year goal of 20 Arby's units a minimum commitment.

Riese eyes Lone Star Cafe as site of a dinner house

NEW YORK — The Riese Organization plans to convert the shuttered Lone Star Cafe, a Greenwich Village honky-tonk that showcased top-name country-and-Western acts, into a Darryl's or Houlihan's dinner house.

The Lone Star was recently closed because the rent for its Fifth Avenue location had skyrocketed. An uptown spin-off, the Lone Star Roadhouse, remains in business.

The Riese Organization operates Houlihan's and T.G.I. Friday's restaurants in New York.

Menu price hikes level off

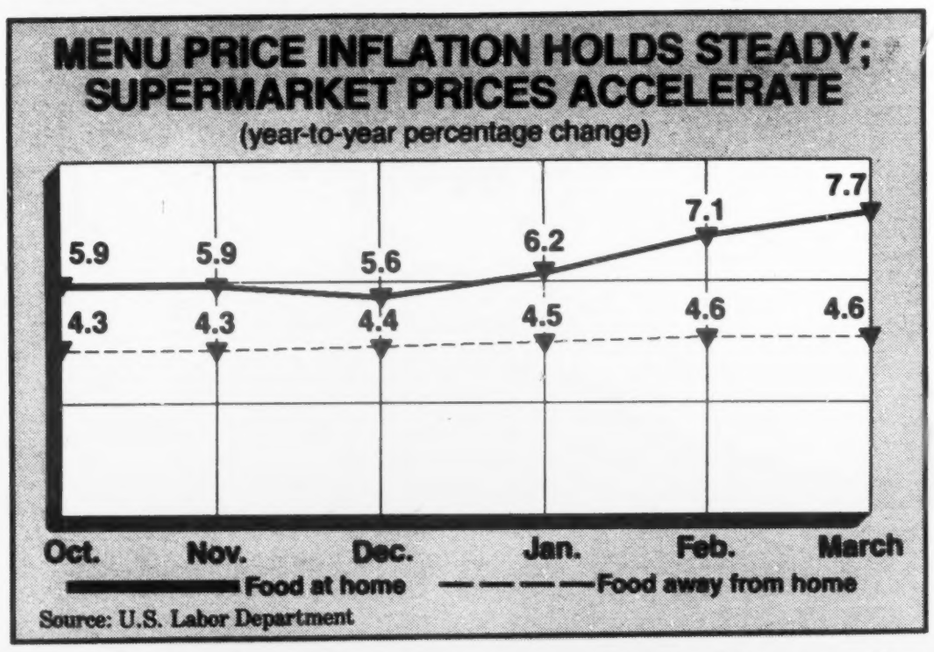
March's 4.6% increase matches February rate

WASHINGTON — While grocery-store prices advanced at a sizzling 7.7-percent rate in March, restaurateurs held menu-price inflation at its February level of 4.6 percent, according to the U.S. Labor Department's Consumer Price Index.

Lunch tickets led Food Away from Home increases in March, registering a 4.7-percent gain, while dinner check inflation was clocked at 4.5 percent. And prices of other meals and snacks increased at a 4.6-percent rate.

Egg prices, which advanced at a 40-percent year-over-year clip, contributed to the runaway prices at the nation's supermarkets, as did those of potatoes, 35 percent; fresh whole chicken, 23 percent; apples, 22 percent; and tomatoes, 21 percent.

Price losers were limited to pork products. The cost of bacon fell 7 percent, while the inflation rate for ham prices slipped 4 percent.



Divestures slice Holiday's f&b sales

By Peter Romeo

MEMPHIS — Hotel divestitures pared the food-and-beverage revenues of Holiday Corp. to $226.1 million in 1988, undershooting the 1987 tally by 13 percent.

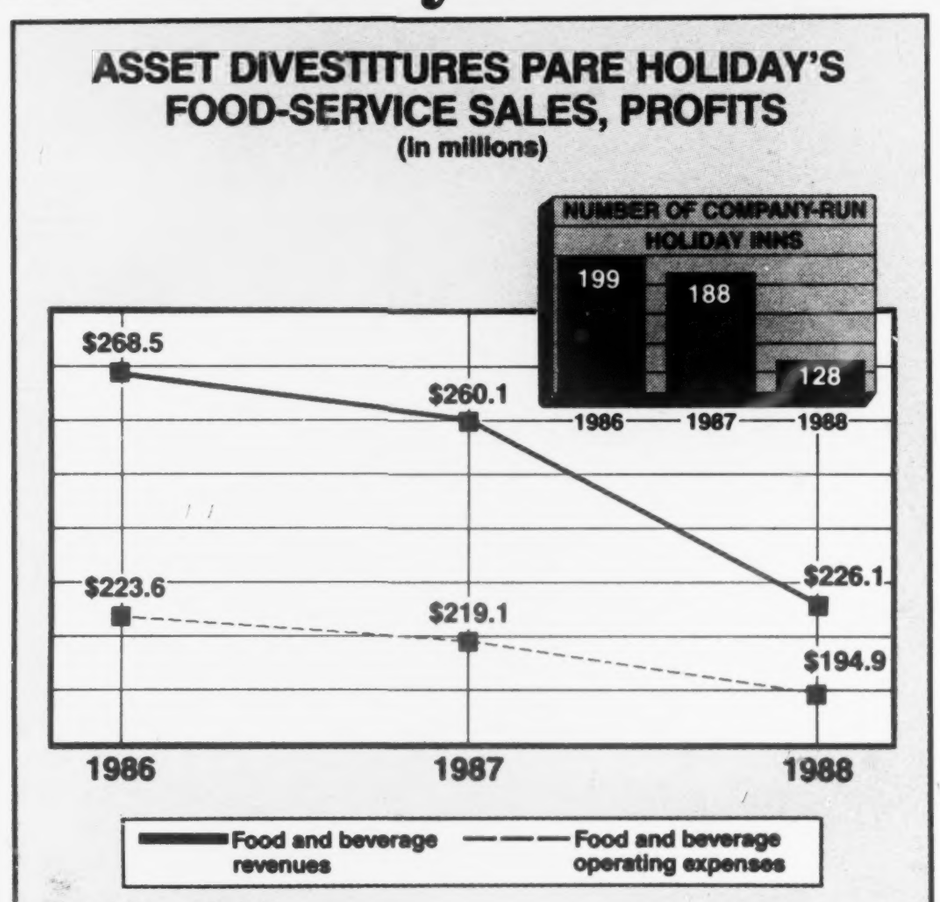
Food-and-beverage operating expenses fell 11 percent, to $194.9 million, according to the innkeeper. The figures indicate that gross income from food-service operations amounted to $31.1 million, down year to year by 24 percent.

The declines reflect the 1988 sale of 60 Holiday Inns, for a cutback of 32 percent. Holiday has been selling company-run properties to "convert our substantial real- estate assets — historically undervalued by the stock market — to cash," the corporation recently told shareholders.

"Perhaps the single most important accomplishment for 1988 was the successful completion of our recapitalization plan," commented Michael Rose, Holiday's chairman, president, and chief operating officer. "By the end of January 1989, we had generated more than $900 million in proceeds from asset sales, one year ahead of projections."

In addition, Holiday has changed its mix of properties to include more budget-priced and all-suite hotels, which

*(See **HOLIDAY**, page 55)*



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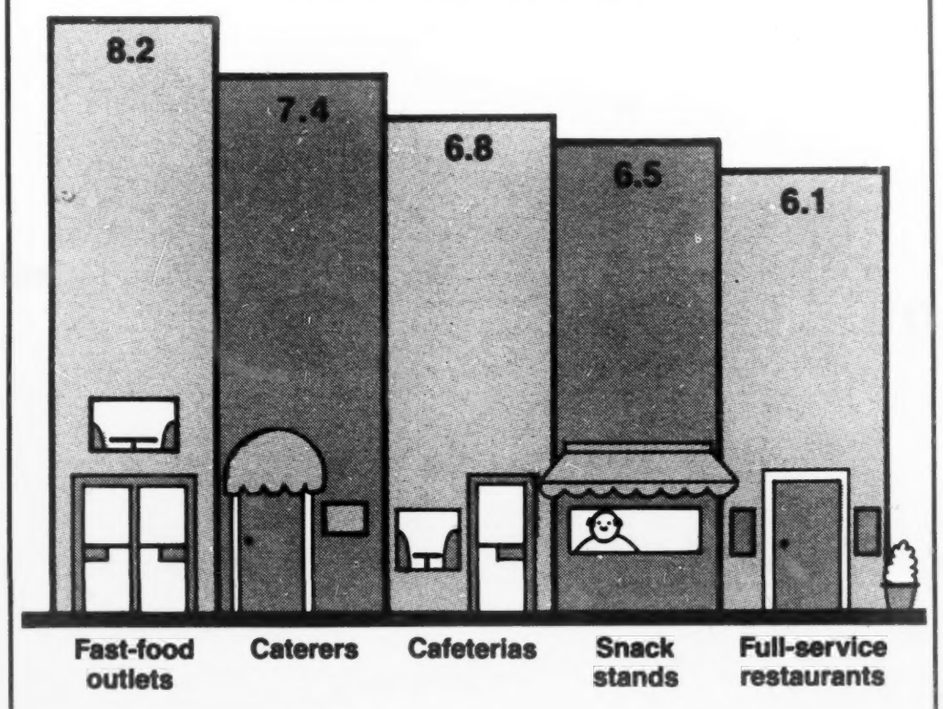
A look at the statistics shaping the industry

SALES GROWTH FASTEST AT FAST-FOOD RESTAURANTS

(percent change 1988 to 1989)



Source: National Restaurant Association projections

FOOD PRICE OUTLOOK

Midwest still below normal on rain

Midwestern farmers have told the U.S. Department of Agriculture that they're going to plant lots more **wheat** (13 percent more) and **sorghum** (14 percent) this year and also increase their acreage in **corn** (8 percent) and **soybeans** (5 percent). But they plan to hold steady on **barley** and cut back on **oats** (6 percent less) and **rice** (3 percent).

The problem is that some large parts of Illinois, Iowa, Kansas, and Missouri are still well below normal in terms of rain. If it doesn't come, the yields may be down even if a full-scale drought does not recur. The winter **wheat** crop is way off projections because of the lack of precipitation, and that will in turn push up **flour** prices.

The effect of the Alaskan oil spill on **salmon** won't really be known for another two years. Some fry that were released just after the spill are believed to be lost, but only about 10 percent to 15 percent make it back to spawn in any case. This year's salmon run is still in doubt. If much residue remains, it could contaminate a large part of the run. If not, conditions could be nearly normal.

Some rises in the price of **dehydrated potatoes** have taken place . . . **Canned tomato products,** especially paste and puree, have moved up in price because of tight supplies. The same applies to ketchup and tomato sauce, which will affect prices of spaghetti sauce . . . **Frozen concentrated orange juice** is up on higher Brazilian bulk prices.

Some products whose prices have eased are **canned imported hams, canned pineapple, iceberg lettuce, fresh strawberries,** and **fresh asparagus.**

— Patt Patterson

NRN FINANCIAL DIGEST

Interest costs clip Marriott's profits

WASHINGTON — A 37-percent hike in interest expense held Marriott Corp. — which operates restaurants, hotels, and contract feeding services — to a 2-percent increase in net income, to $46 million, for its first quarter.

Sales for the quarter gained 10 percent year-over-year to $1.8 billion.

The company's lodging operations posted the best comparisons, raising operating income 18 percent on a 9-percent sales gain.

Marriott's contract services experienced a 14-percent increase in operating profits on an 11-percent sales hike.

And the company's restaurant operations, which include the Bob's Big Boy and Roy Rogers concepts, lifted operating profits 9 percent on a 5-percent improvement in sales.

The higher interest costs resulted from share repurchases and an increase in interest rates. The company's effective tax rate declined slightly in this year's first quarter, to 39.4 percent, from 40 percent in the same period last year.

Asset sales give Circle K gain

PHOENIX, Ariz. — Proceeds from asset sales offset Circle K Corp.'s high interest expenses and lower-than-expected merchandise margins to boost the convenience-store operator's net income 45 percent, to $12.8 million, on a like rise in revenue, to $894.9 million, for its third quarter ended Jan. 31.

In January the company sold its commissary here for an after-tax gain of $14.4 million.

For the January-ended nine months, Circle K's net income fell 6 percent, to $38.5 million before the effects of an accounting change lifted the year-ago net to $46.4 million. Revenues increased 29 percent, to $2.6 billion.

Between $250 million and $300 million, or about 27 percent, of the company's total long-term debt is variable and was affected by recent increases in the prime rate.

Beef costs cow Skyline Chili's profits

CINCINNATI — Skyline Chili Inc. said high beef costs held net income to $195,000, a year-to-year increase of only 3 percent, for the first quarter ended Feb. 19.

Revenues for the quarter advanced 29 percent, to $5.3 million, buoyed by wider distribution of the company's grocery products and an increase in the number of units in operation, the company said.

Skyline Chili will raise menu prices to reduce the impact of the high beef costs, it said.

The company operates 81 chili restaurants, 30 of which are company owned. And six to 10 restaurants will open this fiscal year, the company said.

FOR THE LATEST STOCK MARKET TABLES, SEE PAGE 58

FOCUS | OPINION

Nation's Restaurant News

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, NY 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

Publisher JAMES C. DOHERTY

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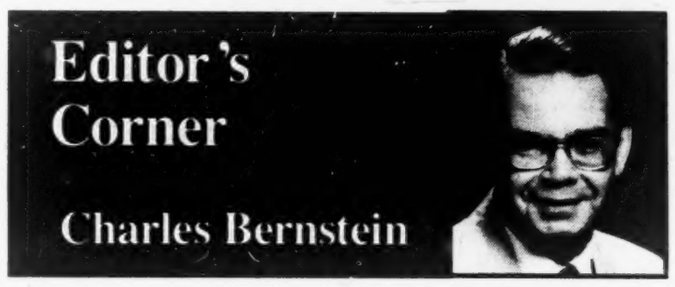
The service and hospitality crisis

If you don't believe there are serious problems in American food service, consider surveys by students at Washington State University's Hotel & Restaurant Administration School. It makes a recent Time magazine article saying that "Service Stinks in America" sound like only a slight exaggeration.

Under the leadership of Westin Hotels Distinguished Professor Don I. Smith, students at WSU's Hotel Restaurant Administration School have been secretly surveying 60 fast-service restaurants (some of them in the same chains) for the past few years. They "shopped" the units five times each in what Smith called "service dramas."



Smith termed service dramas "planned interactions between guest and host which test the host's willingness to deliver hospitality and service." He sees service as the complete restaurant transaction: "It's the procedure that occurs from the time it takes to order and receive a meal, the level of cleanliness, the quality of the food, and the settlement of the bill."

Also considered important in the surveys was "the personal interaction between guest and host which is delivered when the host goes out of his or her way to satisfy some need of the guest."

Based on 360 student "encounters" in 60 quick-service restaurants in the Washington-state and Idaho area, the level of service on a scale of one (disappointing and hostile) to five (exceeding all expectations) averaged three at best.

Operating in groups of five each, students created situations requiring the host to exercise varying degrees of hospitality in key traits: friendliness under stress, immediacy of action, anticipation, managing a complaint, self-control, and listening for "opportunities" with the customer.

Each year of the study, three or four restaurants emerged as "exceptionally hospitable," 12 to 14 restaurants as "average," and three or four in a below-average range, where guests "are treated with disregard, condescension, or rudeness."

This is far from a pretty picture for the quick-service segment and the industry in general. The bottom line is that service and hospitality too often fall below expectations. Average ratings or mediocrity should not be the goal.

A handful of unit managers simply refused to be interviewed or to allow their crews to be questioned by students who had eaten in their units, although the managers did not know this. Inevitably, these non-responsive managers scored the lowest in service and hospitality.

On a happier note, four managers who were invited to address the students on management views were delighted to have this classroom opportunity. They were the managers whose units were the friendliest and the most hospitable. They were presented with surprise awards at the end of their talk.

In what was not a coincidence, three of the four unit managers had the same district manager, and the fourth was recently hired away by the same district manager. Thus the district manager has a potent role in hiring, developing, and retaining top-flight managers.

In essence, the extensive student surveys dramatize today's desperate need to, in the words of Don Smith, "identify, hire, and keep exceptionally friendly, caring managers."

What emerges is that service and hospitality are not a forte of a representative cross section of quick-service restaurants in the Pacific Northwest. But we suspect that this problem is just as serious, or even worse, in the rest of the country.

Whether the units are called quick-service or fast food, the principles are the same. Customers expect a reasonable level of courtesy, friendliness, and hospitality, which they presumably receive at a McDonald's or a Chili's, but not at many other quick-service restaurants.

Nor, we suspect, are customers seeing their service and hospitality expectations realized at family restaurant-coffee shops, steak houses or fine-dining establishments (where a much higher standard is normally anticipated).

It is long past time for food-service operators to re-examine their approaches to service and hospitality, to focus on truly pleasing the customer. An average rating is not nearly good enough for the customer or the operator in today's competitive world.

Twenty-five students in Don Smith's class have indicated the dimensions of the problem. When some of them become food-service managers, prospects are that they will enhance service-hospitality standards. Meanwhile, we hope their implied pleas for better service and genuine hospitality will be heard and heeded.

LETTERS

College feeding market enjoys peer support

Editor, NRN:

Your Focus on college feeding is a welcome recognition of our important segment of the non-commercial food-service market. I am particularly grateful that NRN associate editor Bill Carlino highlighted the contribution of the University of Pennsylvania and our professional association, NACUFS, to our industry.

Carlino's statistics about food-service contractor shares are skewed, however. Accepting the premise that there are an estimated 1,100 colleges and universities utilizing contractors, that is 42 percent, not 65 percent, of the 2,635 colleges and universities in the United States.

In terms of dollar volume, NRA statistics show the contractor's share at $2,433,277, or about 35 percent, not 65 percent. Totaling the figures in NRN's article shows the major contractor's share at less than a billion dollars.

On the other hand, all of the independently run universities highlighted in Carlino's article — Notre Dame, Michigan State, U.S.C., and Ohio State — are members of NACUFS. That association's members, not the contractors, dominate over 65 percent of the market. NACUFS sets industry standards.

As in previous years, NACUFS claims many Silver Plate and Ivy Award winners. This year's Silver Plate winner is Peg Lacey, Cornell's director of dining services, and this year's Ivy winner is Gail Finan, Bryn Mawr and Haverford's director of administrative services.

With NACUFS as our professional association and the NRA as our trade association, we professionals who operate independent food-service organizations for our great colleges and universities enjoy the very highest level of peer support.

— Donald M. Jacobs
executive director
Hospitality Services
University of Pennsylvania
at Philadelphia

IFA confab coverage proves a pleasure

Editor, NRN:

I cannot offer any more effusive praise than once again to say thanks for a job well done in your thorough coverage of the International Franchise Association's most recent annual convention. The clips have been duly passed around the office for in-house perusal and we have also sent copies to our award recipients.

It is always a pleasure working with the professional crew at Nation's Restaurant News, not only at convention time but throughout the year.

— William B. Cherkasky
president
International Franchise Association
Washington

Hotels, restaurants not all there is to industry

Editor, NRN:

I agree with the point you made in your Editor's Corner column, that many schools don't stress their respective restaurant programs as they should. Restaurants have become the service industry's leading force.

However, you neglected to mention the industry is not limited to restaurants and hotels. It comprises many areas. In addition to restaurants and hotels, there are cruise lines, travel services, sporting facilities, hospitals and other care centers, correctional facilities, etc.

Florida International University's School of Hospitality Management's title is an umbrella for all aspects of our vast industry.

You criticize the school for not labeling "restaurants" No. 1, but please let's not forget about all the rest.

— Daniel M. Metter
senior
Forida International University
Miami, Fla.